

# Commercial Update

A publication of the U.S. Department of Commerce, International Trade Administration, Central and Eastern Europe Business Information Center in cooperation with the U.S. Agency for International Development

June 2001

## Hungary: the Crossroads of European Commerce

by Michael Rogers, Central and Eastern Europe Business Information Center

### Introduction

For centuries, Hungary was at the crossroads of European commerce connecting the markets of three of Europe's great empires – Habsburg Austria, Czarist Russia, and Ottoman Turkey. Consequently, Hungary was a major conduit of European trade. At the start of the twenty-first century, one can expect that Hungary will continue in this role and that it will play a major role as a bridgehead between the markets of Western Europe and the emerging markets in Southeast Europe, Russia, and the Newly Independent States.

Geographic location coupled with strong economic performance, and a relatively favorable commercial environment are the chief reasons why U.S.-Hungarian two-way trade has grown exponentially from approximately 800 million in 1990 to 2.75 billion in 2000. It also explains why Hungary has been the principle destination for U.S. foreign direct investment in Central and Eastern Europe.

Hungary is an economy in transition and convergence. It is in the latter stages of its transition from a centrally planned economy to a free market economy. Simultaneously, it is an economy converging toward the European Union (EU) as it continues accession negotiations and moves closer to full membership in the EU.

### U.S. Exports to Hungary

The growing sophistication of the Hungarian economy and its transition to higher-end production and services have created many opportunities for U.S. exporters in the areas of technology and industrial equipment. Some of the top prospects for U.S. exports to Hungary include computer equipment, local area network (LAN) technology, e-commerce, Internet services, and heating and power generation equipment.

According to the *2001 Country Commercial Guide for Hungary*, the Hungarian information technology market reached \$1.2 billion in 2000 making it one of region's largest technology markets. Leading brand name suppliers (with market share) in 1999 include: Compaq (13.2 percent), Dell (9.8 percent), IBM (7.9 percent), Hewlett Packard (6.4 percent), Packard Bell NEC (5.2 percent), Gateway (4.1 percent) and Apple (3.4 percent). While U.S. firms are the market leaders in the Hungarian market, they compete with ICL, Olivetti, Bull, Siemens, Toshiba and Tulip.

In 1999, shipment of systems and servers increased to more than 9,800 units with a value of \$100.5 million (excluding server add-ons). While Unix-based midrange systems continue to generate the largest share of server revenue (\$34 million), Windows NT servers (\$27 million) represent the platform of choice for multi-user applications. Market expansion is being driven by large projects in the government, banking and telecommunications sector as

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# Eye on Southeast Europe

## EBRD Co-financing for Projects in Southeast Europe

by John Morphyades, CEEBIC Trade Specialist and Jeremy Keller, Principle Commercial Officer, Thessaloniki, Greece (Partnership Post for Albania, FYR Macedonia, and Kosovo ("FRY"))

Recognizing the need to promote the growth of a stable commercial environment in Southeast Europe many governments and institutions have increased their activities and focus on Southeast Europe. One such example is the Balkan Investment Project recently launched by the European Bank for Reconstruction and Development (EBRD). The EBRD was established in 1991 to foster the transition to free and open economic markets through promotion of investment in the private sector.

### *EBRD'S Balkan Investment Project*

The EBRD, through its direct investment facility group, operates a two-year initiative, which will expire in April, 2002, to promote investment projects in Bulgaria, FYR Macedonia, Romania, and Ukraine. The project coordinator is Euroconsultants, a consulting company located in Thessaloniki, Greece. Euroconsultants has established a partnership in Thessaloniki with the Hellenic Technology Transfer Center and the Cyprus Development Bank.

The above partnership is requesting five project proposals to spur economic development in the countries specified above. There are no restrictions on industry sectors. Criteria for an approved project are significant growth potential (sustainability), experienced sponsors, well structured financial and business plans, and a clear, and quick, project implementation plan. Small and medium size applicants are especially desirable. The return on investment for the project's term would be at least 30 to 35 percent, and there should be no need for significant outside technical assistance.

Once project proposals have received the partnership's evaluation, they will be forwarded to EBRD for approval. EBRD would then buy equity shares for up to 25 to 30

percent of the value of the project (or up to 49 percent for a short-term project.) The investment range that EBRD would make available to a qualifying project is between \$500,000 and \$2.5 million, with a typical term between three to five years. Long term could be up to seven years.

There are no current commitments by EBRD to investors. The field is wide open for bidders. U.S. companies are welcome to participate in this program, but are encouraged to bid in conjunction with local partners.

Interested parties should contact the following:

Mr. Grigoris Kontzoglou, Area Manager  
Euroconsultants  
16, Iktinou str.  
546 22 Thessaloniki, Greece  
Tel. ++30(31) 271-324  
Fax: ++30(31) 260-898  
E-mail: [info@euroconsultants.com.gr](mailto:info@euroconsultants.com.gr)

Mr. John Morphyades, CEEBIC Trade Specialist  
U.S. Commercial Service  
United States Consulate Thessaloniki  
PSC 108  
APO, AE 09842  
Tel: ++30(31) 242-905  
Fax: ++30(31) 249-910  
E-mail: [john.morphyades@mail.doc.gov](mailto:john.morphyades@mail.doc.gov)

### ***Central and Eastern European Commercial Update***

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<b>Director:</b>	Jay Burgess
<b>Associate Director:</b>	Jennifer Gothard
<b>Editor:</b>	Michael Rogers
<b>International Trade Specialists:</b>	Jennifer Gothard, Andrea Lupo, Michael Rogers, Silvia Savich
<b>Webmaster:</b>	Gedlom Tesfazion
<b>Contributors:</b>	Jonathan Kimball, Laurie Molnar, Melissa Wilson

### **A Message From CEEBIC: The Area Code for Skopje, FYR Macedonia Has Changed**

The area code for Skopje, FYR Macedonia has changed from 91 to 2.

# Resources for U.S. Firms Interested in Doing Business in Hungary

## *U.S. Government Resources:*

### **Central and Eastern Europe Business Information Center (CEEbic)**

Michael Rogers  
International Trade Specialist  
U.S. Department of Commerce  
Mailstop: R-CEEbic  
1401 Constitution Ave., NW  
Washington, DC 20230  
tel. ++ 1 (202) 482-2645  
fax ++ 1 (202) 482-3898  
e-mail [ceebic@ita.doc.gov](mailto:ceebic@ita.doc.gov)  
[www.mac.doc.gov/eebic/ceebic.html](http://www.mac.doc.gov/eebic/ceebic.html)

### **U.S. Commercial Service Budapest**

Scott Bozek  
Senior Commercial Officer  
Pamela Ward  
Commercial Attache  
Szabadsag ter 12, 1054 Budapest  
Tel: ++ 36 (1) 475-4282  
Fax ++ 36 (1) 475-4676  
e-mail: [Office.Box.Budapest@mail.doc.gov](mailto:Office.Box.Budapest@mail.doc.gov)  
[www.usatrade.gov](http://www.usatrade.gov)

## *Hungarian Government Resources:*

Barbaras Nemeth  
Trade Commissioner  
Hungarian Trade Commission  
150 E. 58th Street  
33rd Floor  
New York, NY 10155-3398  
Tel: ++ 1 (212) 752-3060  
Fax: ++ 1 (212) 486-2958  
E-mail: [HungarianTradeOfficeNY@worldnet.att.net](mailto:HungarianTradeOfficeNY@worldnet.att.net)  
[www.itd.hu](http://www.itd.hu)

## *Non-governmental Resources:*

### **The American Chamber of Commerce in Hungary**

Peter Fath  
Executive Director  
Ferenc u. 10  
5th Floor  
H-1052 Budapest  
Hungary  
Tel. ++ 36 (1) 266-9880  
Fax ++ 36 (1) 266-9888  
E-mail [info@amcham.hu](mailto:info@amcham.hu)  
[www.amcham.hu](http://www.amcham.hu)

### **U.S. - Eastern Hungary Partnership Foundation**

Susan K. Kutor  
Country Manager  
Deák Ferenc u. 10  
Budapest 1052  
Tel: ++ 36 (1) 267-6858  
Fax: ++ 36 (1) 266-9888  
[s.kutor@nextra.hu](mailto:s.kutor@nextra.hu)  
[www.invest-ehu.com](http://www.invest-ehu.com)

## *Misc Resources on the World Wide Web:*

### **Hungarian Ministry of Economy**

[www.gm.hu](http://www.gm.hu)

### **Hungarian Privatization and State Holding Company**

[www.pvrt.hu](http://www.pvrt.hu)

### **Hungarian Ministry of Foreign Affairs**

[www.kum.hu](http://www.kum.hu)

### **Hungarian Central Statistics Office**

[www.ksh.hu](http://www.ksh.hu)

## Central and Eastern Europe Commercial Opportunities

### Hungary

Agra-Pont Kft. operates two hobby supply stores in Hungary. Established in 1996, Agra-Pont product-line includes cotton linen, pearls, mistletoe, glass, paints for textiles, and pottery. It is seeking to expand the number of U.S. products available at its stores and is seeking to purchase cotton based textiles typically used in patchwork quilting.

#### Contact:

Gabriella Sule  
Agra-Pont Kft.  
Aponyi A. utca 3  
9721 Gencsapati  
Hungary  
Tel. ++ 36 (30) 9973-659  
Fax ++ 36 (94) 318-537

Christ Hungaria Kft. is a manufacturer of water purifying equipment. It was established in 1998 and currently employs eight people. It is seeking to become a distributor of U.S. technology and equipment that remove iron, manganese from household drinking water.

#### Contact

Zsolt Szabo  
Christ Hungaria Kft.  
Komaromi u. 22  
2040 Budaros Pest  
Hungary  
Tel. ++ 36 (23) 415-305  
Fax ++ 36 (23) 415-561  
Cellular ++ 36 (30) 970-8071

### Kosovo ("FRY")

Alba Commerce is a privately held company with over 10 years experience in the production of furniture. Alba Commerce wishes to purchase equipment used in the manufacture of and production of furniture, windows, doors, and paneling.

#### Contact:

Alba Commerce  
Industrial Zone, Pristina  
Fushe Kosova Highway  
4th Kilometer  
Pristina, Kosovo ("FRY") 38000  
Tel. ++ 377 (0) 441-61184  
E-mail bucii@hotmail.com

### Romania

Comtel is a privately held provider of telehopne solutions including audio text, facsimile, voice mail, auto attendant, green lines, billing solutions and dynamic routing. Comtel has been in business for three years and currently employs 38 people. They are seeking to become the distributor of american telephone technology.

#### Contact:

Roxana Patascu  
Director General  
COMTEL  
99 Ferdinand Blvd  
Bucharest 2, 73241  
Romania  
Tel. ++ 4 (01) 205-0641  
Fax ++ 4 (01) 205-0677  
E-mail roxana@mit.ro

*For more trade and investment opportunities, visit CEEBICnet at [www.mac.doc.gov/eebic/ceebic.html](http://www.mac.doc.gov/eebic/ceebic.html)*

### Recent Market Report for Hungary

The U.S. Commercial Service in Hungary has produced a number of International Market Insight (IMI) reports that are now available on CEEBICNet.

E-Commerce Brief  
June 2001

Education and Training Opportunities in Hungary  
May 2001

The Automotive and Automotive Parts  
Market in Hungary  
April 2001

Hungarian Travel and Tourism to the United States  
April 2001

Liberalization of Hungary's Energy Sector  
April 2001

Mobile Commerce Brief  
March 2001

## Hungary (Continued from page 1)

well as continued growth in the LAN server category fuelled by the country's small and medium sized business segments. The sales of data communications equipment amounted to \$105 million in 1999, (a 34.2 percent increase over 1998), whereas a 10.8 percent annual growth is forecast for 2000, and 7.7 percent for 2001.

Hungary's IT market is expected to grow at an annual rate of 9.25 percent in terms of value in 2001. Most vendor activity will be confined to the low end of the market, in particular to personal computers, PC servers, desktop software applications, peripherals and data communications. High growth rates are also projected for software and services.

Market reforms have transformed Hungary's energy sector and Hungary has become one of the models of market-oriented energy sector restructuring in Central and Eastern Europe. Still, the transformation of the once wholly state-owned and centrally controlled energy system has not yet finished. Massive changes have taken place in the legislative and regulatory environment. This in turn has triggered a major influx of foreign working capital into the sector. Motivated by the directives of the European Union, and also under pressure from its own energy consumers, Hungary is now very close to adopting a truly liberal and competitive energy market model.

According to the current liberalization plan of the Ministry of Economic Affairs, fifteen percent of the internal power market (all consumers with above 100 GWh per year annual consumption) will be opened to free competition by the middle of 2001. A gradual natural gas market opening along with the power import liberalization is scheduled to be implemented sometime after that date, leading to full liberalization by the time of Hungary's EU accession, currently forecasted for no sooner than 2005. As a result of the uncertainty caused by the deregulation process and the relative oversupply situation of the power market, industry experts do not foresee opportunities for new independent power projects in the coming five years. However, the Hungarian District-Heating market offers unique opportunities for U.S. exporters of products and services. Over 650,000 homes and 150,000 home-equivalents-worth of communal users (mainly schools, public office buildings and hospitals) are connected to district heating in Hungary, the biggest market (with 245,000 homes connected) being in the capital, Budapest itself. Affecting over twenty percent of the population of the country, most of the obsolete district-heating systems need major technology and managerial upgrades. After four decades of state ownership, today most Hungarian

district heating companies are municipally owned and operated. The municipal ownership structure, however, has not proven to be the most efficient way of operation either. After ten years of stagnation and deterioration of assets (resulting from lack of capital in their systems), more and more cities are now turning towards a market-type solution, or direct privatization to solve their district heating problems. There are already good working examples, where communities have sold long-term heat-supply concessions to strategic investors, who in exchange upgraded heat source facilities and operate systems at significantly higher efficiency levels than before. In turn, cities, reinvesting the savings thus generated, are able to upgrade the heat distribution and control systems on the consumer side, which result in significantly lower heating bills and a more efficient system overall. With upcoming municipal elections scheduled for late 2002, most mayors and municipal leaders see this issue as a question of key importance. One of the federal Government's major energy restructuring programs is aimed at energy efficiency, proposing to support such developments with preferential loans and grants to the owners of district heating systems.

According to U.S. Embassy calculations and the estimates of the Association of Hungarian District Heating Companies, over \$60 million will be spent on new combined heat and power facilities, new gas engines, generators and control systems to be installed in the coming three years in Hungary. This estimate does not include the energy efficiency upgrades of the secondary side (distribution, heat centers, and home level controls) of heating systems.

There are also opportunities for U.S. agribusiness in Hungary. They include: planting seed, soybean meal, bovine semen, poultry breeding stock, and beef. More information on U.S. agricultural export opportunities may be obtained from the Foreign Agriculture Service (FAS) of the U.S. Department of Agriculture (USDA) at [www.fas.usda.gov](http://www.fas.usda.gov).

### *U.S. Investment in Hungary*

The United States has been a leader in foreign direct investment in Hungary. To date the U.S. has invested over 7 billion in Hungary. U.S. investment in Hungary has been led by U.S. multinationals seeking to setup hubs of operation in Europe. The firms are taking advantage of Hungary's investment incentive package and its membership in the Central Europe Free Trade Agreement (CEFTA) and its association agreement with the European Union, which enable Hungarian origin goods to move throughout most Europe duty-free or at greatly reduced tariff rates. U.S. firms that have made significant investments in Hungary include: General Motors, General

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## Around the Region . . .

### **Albania: Foreign Investment Reaches Record High in 2000**

Foreign direct investment in Albania reached a record high in 2000, more than tripling from 1999, largely due to the revenue from the privatization of the mobile phone monopoly. Foreign direct investment totaled \$143 million in 2000, the highest level in 10 years and \$100 million higher than in 1999. In 2000, Albania sold its mobile monopoly AMC for \$85.6 million to CosmOTE of Greece. International Monetary Fund representative Volker Treichel stated that the total figure for foreign investment may have been over \$143 million. Albanian GDP growth was 7.3 percent last year same as in 1999. (Source: Reuters)

### **Romania: Banca Agricola Is Privatized**

Banca Agricola, Romania's second largest state bank, was sold for more than \$50 million to a consortium including Raiferisen Zentralbank of Austria and the Romanian American Enterprise Fund. The new owners pledged to inject \$30 million for future capital increase. (Source: Reuters)

### **Slovenia: Accelerates Pace of Privatization**

The Slovenia government will accelerate the pace of its privatization program, selling off larger stakes of several state-owned companies this year than it had originally intended. The government plans to privatize up to 48 percent of Slovenia's largest bank, Nova Ljubljanska Banka (NLB), in 2001 instead of the 35 percent that was originally planned. Currently, the state owns 83 percent of NLB. The government will also privatize shares of 49 percent each in the country's major port operator, Luka Koper, and airport operator, Aerodrom Ljubljana. However, no modifications have been made for plans to privatize 40 percent of Slovenia's second-largest bank, Nova Kreditna Banka Maribor, 80 percent of aluminum smelter Talum, and 15 percent in Telekom. Proceeds from the privatizations will be utilized to decrease Slovenia's external debt. (Source: Reuters)

### **The U.S. and Hungary Working Together to Create Opportunities in Eastern Hungary**

In the Summer of 2000 the American Chamber of Commerce launched the U.S. - Eastern Hungary Partnership Foundation (US-EHP). The goal of the foundation is to promote economic, commercial, and cultural cooperation between the United States and the eastern region of Hungary. The foundation is the successor of the U.S. Embassy in Budapest's U.S. - Eastern Hungary Partnership initiative. US-EHP receives support from both the United States and Hungary.

### **Bulgaria: Changes to Privatization Regulations**

Bulgaria's government announced this week that it modified several privatization regulations to increase the transparency and efficiency of privatization deals. Deputy Prime Minister Petar Zhotov stated that the changes to the privatization regulations are intended to increase investor confidence, permit more time to prepare bids, and improve the government marketing strategy. Zhotov announced that all government criteria for selecting a purchaser would be made public. With these changes, the price estimate for the state assets made by privatization consultants would not be mandatory for the government in its negotiations with potential investors. Another change allows for a 30 day time period for companies to submit bids between the time of the tender announcement and the tender deadline. The government stated that it will continue to develop its privatization strategy for the few large companies that have not yet been privatized include the telecommunications monopoly BTC, and maritime shipping company BMF. The government hopes to earn 640 million leva (\$296million) from the privatization of state assets in 2001. Approximately, 202 million leva of this revenue are earmarked to finance part of the deficit in the consolidated state budget. The deficit is approximately 424 million leva or 1.5 percent of GDP. (Source: Reuters)

**Croatia: Power Industry and USAID Sign Memorandum of Understanding** On April 11, Croatian Power Industry's (HEP) director Ivo Covic and the head of the U.S. Agency for International Development (USAID) mission Pamela Baldwin signed a Memorandum of Understanding for the reconstruction of an electric power grid. Ambassador Lawrence Rossin and the Public Works Minister Radimir Cacic witnessed the signing. The \$7.1 million deal will help fund the reconstruction of the power grid in Sisak-Moslavina and Karlovac counties, which are currently without electricity. The costs will be divided between USAID and HEP, \$5 million and \$2.1 million respectively. According to Pamela Baldwin, "electricity was an exceptionally important precondition for the return of people to those areas, local economy and development". (Source: Croatian News Agency (HINA))

Eastern Hungary has been an often overlooked destination for U.S. commercial activity. US-EHP with support from the U.S. Commercial Service in Budapest can help match U.S. firms with partners in Eastern Hungary and can provide U.S. companies with information on investment incentive programs that include tax incentives, no-interest loans, and job training grants. All of the foundation's services are free-of-charge.

To learn more about US-EHP and its services, go to [www.invest-ehu.com](http://www.invest-ehu.com).

## Hungary (Continued from page 5)

Electric, Citibank, and IBM.

The Hungarian government has developed a comprehensive investment incentive package to help attract foreign investment to Hungary. This includes tax abatement of up to 10 years and job training grants for local workers. Detailed information on Hungary's investment incentive program is available at the Website of the Hungarian Trade and Investment Agency (ITD) [www.itd.hu](http://www.itd.hu).

### Conclusions

Hungary is a very attractive market for U.S. commercial activity. Its value to U.S. business is far greater than its actual market size. U.S. firms exploring opportunities in Central and Eastern Europe should not overlook Hungary.

A detailed list of opportunities for U.S. exporters and investors in Hungary is available in the *2001 Country Commercial Guide for Hungary*. This comprehensive document produced by the U.S. Commercial Service is available on CEEBICnet at [www.mac.doc.gov/eebic/ceebic.htm](http://www.mac.doc.gov/eebic/ceebic.htm).

The Central and Eastern Europe Business Information Center (CEEbic) and U.S. Commercial Service in Budapest are available to assist U.S. firms seeking to export to Hungary. CEEbic may be reached at tel. ++1 (202) 482-2645, fax ++1 (202) 482-3898, or e-mail [ceebic@ita.doc.gov](mailto:ceebic@ita.doc.gov). U.S. Commercial Service in Budapest may be reached at tel ++36 (1) 475-4282, fax ++36 (1) 475-4676, or e-mail [Office.Box.Budapest@mail.doc.gov](mailto:Office.Box.Budapest@mail.doc.gov).

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### CEEbic Workshop

#### Exporting to Central and Eastern Europe: The Basics of Documentation

July 31, 2001  
10:00 – 11:30  
USA Trade Center  
Ronald Reagan Building  
Washington, D.C.

For more information or to RSVP,  
call (202) 482-2645, fax (202) 482-3898, or e-mail  
[CEEbic@ita.doc.gov](mailto:CEEbic@ita.doc.gov)

## Calendar of Events



### June

**6/25 – 6/26** 14th Bled Electronic Commerce Conference: E-Everything, E-Commerce, E-Government, E-Household, E-Democracy, Bled, Slovenia.  
Contact: Joze Gricar, conference chair, tel. ++386 (4) 237-4291, e-mail [grican@uni-lj.si](mailto:grican@uni-lj.si). For more information, go to [www.ecom.fov.uni-mb.si](http://www.ecom.fov.uni-mb.si).

### July

**7/18 – 7/19** Amercian Catalog Show in Albania, Tirana, Albania  
Contact: Jennifer Gothard, CEEbic trade specialist, tel. ++1 (202) 482-2645, fax ++1 (202) 482-3898, or e-mail [ceebic@ita.doc.gov](mailto:ceebic@ita.doc.gov). (Materials must be mailed by June 8, 2001)

**7/30** CEEbic Workshop: Exporting to Central and Eastern Europe – The Basics of Documentation, Washington, D.C.  
Contact: CEEbic, tel. ++1 (202) 482-2645, ++ (202) 482-3898, e-mail [CEEbic@ita.doc.gov](mailto:CEEbic@ita.doc.gov).

### August

**8/29 – 9/2** Polish American Contractors and Builders Association (PACBA) Expo 2001, Wroclaw, Poland  
Contact: PACBA, tel. ++1 (773) 533-2200, or E-mail [info@pacba.com](mailto:info@pacba.com)

**For a more complete list of events, go to  
CEEbicnet, [www.mac.doc.gov/eebic/ceebic.html](http://www.mac.doc.gov/eebic/ceebic.html)**

*This notice is provided solely as an informational resource and does not constitute U.S. Department of Commerce endorsement of these events. All information published in the Commercial Update regarding trade events is subject change without notice by the organizers of those events.*

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### CEEbic Launches a New E-mail Publication

CEEbic launched a new e-mail publication in May. The Central Europe and Norther Tier Business Brief (CENT) is a free bi-weekly e-mail publication for the U.S. business community. The CENT provides the latest commercial information and opportunities for the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and the Slovak Republic. The CENT is modeled after CEEbic's highly successful Southeastern Europe Business Brief (SEEBB). To subscribe to either publication, you send an e-mail to [ceebic@ita.doc.gov](mailto:ceebic@ita.doc.gov).

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